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Message Text

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AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI

S E C R E T SECTION 1 OF 3 CAIRO 6498

LIMDIS

E.O. 11652: GDS
TAGS: PFOR, PINT, EG, UR, US, XF, XG
SUBJECT: QUARTERLY POLITICAL ASSESSMENT: APRIL 1 - JUNE 30, 1975

REF: CAIRO 3310

SUMMARY: FORD/SADAT SALZBURG SUMMIT WAS QUARTER'S FOCAL POINT AND PROVIDED MUCH NEEDED BOOST TO GOE CONFIDENCE IN US INTENTIONS VIS-A-VIS ME PEACE SETTLEMENT. GOE ALSO TOOK HEART FROM ISRAELI PRESS REPORTS THAT FORD/RABIN MEETING DID NOT GO WELL, BUT IS STILL UNABLE UNDERSAND WHY US CANNOT BRING RECALCITRANT PROTEGE TO HEEL. RELATIONS WITH SOVIETS REMAIN
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POOR. SOVIET REFUSAL REPLACE OCTOBER MILITARY LOSSES OR

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RESCHEDULE DEBT AND NEW SOVIET-LIBYAN ARMS DEAL CONFIRMED SADAT'S BELIEF THAT SOVIETS OUT TO GET HIM. IN ARAB ARENA, SADAT IS CONVINCED QADHAAFI IS DANGEROUS LUNATIC; HE IS EXTREMELY CONCERNED OVER RAPIDLY DETERIORATING SITUATION IN LEBANON. HE WAS SUCCESSFUL IN ACHIEVING MEASURE OF ARAB CONSENSUS RE ME NEGOTIATIONS PRIOR TO SALZBURG SUMMIT, BUT DESPITE SURFACE RAPPROACHEMENT WITH ASAD, CANNOT SHAKE DISTRUST OF SYRIANS. SADAT IS PLEASED WITH GROWING STRENGTH OF GOE POSITION IN EUROPEAN CAPITALS. ON DOMESTIC SCENE, INSTALLATION OF NEW CABINET, DESIGNATION OF MUBARAK AS NEW VP AND REOPENING OF SUEZ CANAL DOMINATE QUARTER. SERIOUS LIQUIDITY AND BALANCE OF PAYMENTS PROBLEMS COULD NO LONGER BE IGNORED. END SUMMARY.

1. FOLLOWING IS EMBASSY CAIRO'S QUARTERLY POLITICAL ASSESSMENT FOR APIRL 1 - JUNE 30, 1975. PART I, EGYPTIAN FOREIGN AFFAIRS, IS DIVIDED INTO SUBSECTIONS ON GOE RELATIONS WITH USG, USSR, ARABS, EUROPE AND OTHERS. PART II DISCUSSES INTERNAL POLITICAL-ECONOMIC SITUATION.

PART I. FOREIGN AFFAIRS: A. US-EGYPTIAN RELATIONS: MEETING BETWEEN PRESIDENTS FORD AND SADAT AT SALZBURG IN JUNE HIGHLIGHTED QUARTER. BREAKDOWN OF US EFFORT IN MARCH TO OBTAIN A SECOND STAGE DISENGAGEMENT AGREEMENT THREATENED NEW DRIFT IN VOLATILE ME SITUATION AND POSED MAJOR POLICY QUESTIONS FOR SADAT. FACED WITH RECURRENT NEED TO JUSTIFY TO HIS CRITICS AT HOME AND ABROAD BENEFITS OF HIS PRO-US POLICY, HE SEIZED OCCASION OF FUNERAL CEREMONIES FOR KING FAISAL IN RIYADH TO DISCUSS WITH VP ROCKEFELLER EARLIER SUGGESTION THAT SADAT MEET WITH PRESIDENT FORD IN SOME NEUTRAL COUNTRY; SADAT STRESSED SUMMIT SHOULD PRODUCE CONCRETE RESULTS. CONCURRENTLY, ANNOUNCEMENT OF REASSESSMENT OF US MIDDLE EAST POLICY BROUGHT TIME FOR BOTH GOE AND USG AND BUOYED EGYPTIAN HOPES. KEYNOTE OF THE US REASSESSMENT, IN EGYPTIAN EYES, WAS PRESIDENT FORD'S CRITICISM OF ISRAELI "INFLEXIBILITY". PROTRACTED DELAY IN ANNOUNCING RESULTS OF REASSESSMENT AROUSED SOME MISGIVINGS, BUT VISIBLY STRAINED US-ISRAELI RELATIONS WERE READ AS WELCOME SUPPORT FOR EGYPTIAN STANCE. COEVALLY, EGYPTIANS FOUND ISRAELI'S REFUSAL TO SUCCUMB PUZZLING AND ARGUED US SHOULD APPLY MORE PRESSURE TO BRING ISRAEL TO HEEL.

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3. PRIOR TO SALZBURG, SADAT REPEATEDLY STATED HE WOULD ATTEND SUMMIT SIMPLY TO LISTEN TO WHAT USG HAD TO OFFER. BUT ON EVE OF SALZBURG TALKS, EGYPTIANS WERE TYPICALLY APPREHENSIVE ABOUT WHAT MIGHT EMERGE. ALREADY FEARFUL LEST MORE CONCESSIONS BE SOUGHT FROM SADAT, THEY NOW WONDERED WHETHER USG HANDS WERE TIED, ESPECIALLY AFTER THE PRO-ISRAELI LETTER OF THE 76 SENATORS. EGYPTIANS WERE STUNNED BY PUBLICATION OF THAT

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LETTER, PARTICULARLY AFTER THEY HAD DEVOTED MUCH EFFORT AND HOSPITALITY TO NUMEROUS CONGRESSIONAL VISITORS IN ORDER TO GIVE THEM A MORE BALANCED APPRECIATION OF THE ARAB-ISARELI DISPUTE.

4. IN FACT, SALZBURG SUMMIT WENT FAMOUSLY. NOT ONLY DID THE TWO PRESIDENTS GET TO KNOW EACH OTHER, BUT ALL INDICATIONS POINT TO FACT THEY LIKED EACH OTHER. SADAT CAME AWAY CONVINCED PRESIDENT FORD IS FIRM IN HIS ANNOUNCED DETERMINATION NOT TO PERMIT STALEMATE OR STAGNATION TO DEVELOP IN PEACEMAKING PROCESS. DESPITE CONTINUING UNCERTAINTY HOW THIS WOULD BE DONE, SUMMIT TALKS RENEWED SENSE OF EGYTIAN CONFIDENCE IN US INTENTIONS. HOWEVER, GIVEN MERCURIAL EGYPTIAN TEMPERAMENT, DEMONSTRABLE PROGRESS IS NECESSARY BEFORE LONG TO SUSTAIN THAT CONFIDENCE.

5. SUBSEQUENT RABIN TALKS IN WASHINGTON WERESCRUTINIZED WITH KEEN INTEREST. DOMINANT QUESTION IN EGYPTIAN MINDS WAS WHETHER USG HAD MANAGED TO PERSUADE ISRAEL TO SHOW GREATER FLEXIBILITY. ISRAELI PRESS STATEMENTS SOON MADE IT CLEAR THIS WAS NOT THE CASE, THOUGH RASH OF CONCURRENT PRESS STORIES OUT OF JERUSALEM SIGNALING NEW STRAINS IN US-ISRAELI RELATIONS ASSUAGED SOMEWHAT EGYPTIANDISAPPOINTMENT AND SHOWED US WAS TRYING. SADAT STILL LOOKS TO USG TO ACT AS MEDIATOR TO MOVE ARAB-ISARELI DISPUTE CLOSER TO A JUST AND DURABLE SOLUTION AND HAS TOLD PRESSMEN A US PROPOSAL IS NOW NEEDED. MEANWHILE, LOCAL PRESS HAS ELLIPTICALLY REPORTED EGYPTIAN COUNTER PROPOSAL OFFERED TO KEEP BALL IN PLAY.

6. ON ANOTHER PLANE, USG ENGAGED ITSELF IN ORGANIZE MULTI-LATERAL FINANCIAL ASSISTANCE FOR EGYPT TO ENABLE GOE TO OVERCOME ITS SERIOUS LIQUIDITY AND BUDGETARY DEFICIT PROBLEM. UNDERSECRETARY ROBINSON THRICE VISITED EGYPT DURING THE
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QUARTER TO DISCUSS THE SUBJECT. US ECONOMIC ASSISTANCE PROGRAM FOR EGYPT ACCELERATED DURING THE QUARTER WITH SINGING OF VARIOUS DOCUMENTS, INCLUDING CONCESSIONARY SALE OF 350 THOUSAND TONS OF PL-480 WHEAT, A NEW $70 MILLION CIP LOAN, ROAD BUILDING EQUIPMENT, AND THE INITIATION OF GRAIN SILO CONSTRUCTION PROGRAM. THESE AGREEMENTS, ALL CAREFULLY STAGED, RECEIVED FAVORABLE EGYPTIN PUBLICITY.

7. SYMBOLIZING US-EGYPTIAN RELATIONSHIP, GOE INVITED COMSIXTHFLEET FLAGSHIP, USS LITTLE ROCK, WITH VICE ADMIRAL TURNER ABOARD, TO PARTICIPATE IN SUEZ CANAL REOPENING PROCESSION. TO CHAGRIN OF SOVIETS AND OF OUR BRITISH AND FRENCH ALLIES, SHE WAS ONLY FOREIGN WARSHIP IN THE CONVOY AND EVOKED MUCH COMMENT. LITTLE ROCK THEN INVITED TO MAKE A THREE-DAY OPERATIONAL VISIT TO ALEXANDRIA, WHERE SADAT RECEIVED TURNER.

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8. B. EGYPTIAN/SOVIET RELATIONS: ON SURFACE, BREAKDOWN OF SECOND PHASE DISENGAGEMENT TALKS OFFERED EXPLOITABLE OPPORTUNITY, BUT SOVIETS UNABLE CAPITALIZE ON IT AND FARED POORLY. FAHMY WAS INVITED IN MID-APRIL TO VISIT MOSCOW, WHERE HE OBTAINED SOVIET AGREEMENT TO SEPARATE DEBT REPAYMENT ISSUE FROM RESUMPTION OF LIMITED SOVIET INDUSTRIAL/TECHNICAL ASSISTANCE AND TO PROCEED WITH LONG DELAYED OVERHAUL OF EAF ENGINES. IN RETURN, FAHMY ACQUIESCED IN JOINT COMMUNIQUE FORMULATION STIPULATING ALL FURTHER STEPS TOWARD PEACE

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AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
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SETTLEMENT, INCLUDING PARTIAL STEPS, SHOULD TAKE PLACE SOLELY IN FRAMEWORK GENEVA CONFERENCE, I.E., WITH SOVIET

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PARTICIPATION. BUT FAHMY ALSO RETURNED WITH CLEAR IMPRESSION THAT SOVIETS WORRIED THEY MIGHT HAVE TO SHARE RESPONSIBILITY FOR POTENTIAL FAILURE AT GENEVA. STRESSING NEED FOR CAREFUL PREPARATION FOR GENEVA, SOVIETS REVERSED EARLIER PUBLIC POSITION AND COUNSELLED INTERIM AGREEMENT NEGOTIATED AT GENEVA LIKELY BE OPTIMUM OBTAINABLE AT THIS TIME. ALTHOUGH SOVIETS CONTINUED PUBLICLY ENDORSE GENEVA FORUM, HEAT WAS OFF FOR EARLYRECONVENING OF CONFERENCE. EGYPTIANS ARE MINDFUL SOVIETS HAVE LITTLE MEANINGFUL TO OFFER TO ADVANCE PEACEMAKING PROCESS.

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9. FAHMY'S LIMITED SUCCESS FOUNDERED, AS IT HAS SO OFTEN, ON SADAT'S ANTI-SOVIET PHOBIA. SHORTLY AFTER FONMIN'S RETURN, SADAT GAVE PUBLIC ADDRESS AGAIN BLASTING SOVIETS FOR FAILING TO REPLACE OCTOBER WAR LOSSES AND AGREE TO DEBT REPAYMENT MORATORIUM. SOVIET-LIBYAN ARMS DEAL FURTHER SOURED SOVIET-EGYPTIAN RELATIONS. SADAT, ESPITE REPEATED SOVIET DENIALS, CHARGED SOVIETS AGREED TO SUPPLY LIBYA WITH $12 BILLION IN ARMS, AND WITH QADHAAFI'S CONNIVANCE PLANNED TO ESTABLISH SOVIET-MANNED MILITARY BASES ONLIBYAN TERRITORY. HIS CLAIM TO DOLLAR VALUE OF ARMS IS EXAGGERATED, BUT HIS DWELLING ON SUBJECT REFLECTS HIS DEEP CONVICTION THAT NEW SOVIET-LIBYAN RELATIONSHIP IS A DIRECT THREAT TO EGYPT. SOVIETS, SADAT BELIEVES, ARE OUT TO BRING HIM DOWN BY HOOK OR BY CROOK.

10. SYMBOLICALLY, SOVIET HUMILIATION WAS COMPLETE WITH USS LITTLE ROCK INCIDENT. ON PRACTICAL LEVEL, MOST DISTURBING TO SOVIETS WAS SADAT'S ORDER THAT EGYPTIAN NAVY NOT RESPOND TOROUTINE SOVIET REQUEST TO USE SALLUM AND MERSA MATRUH NAVAL FACILITIES, WHICH THEY HAVE LONG ENJOYED. ALEXANDRIA FACILITIES APPARENTLY STILL REMAIN OPEN TO THEM, ALTHOUGH THERE ARE INDIATIONS THAT THESE TOO MAY BE TAKEN AWAY. HYPERSENSITIVE AS THEY ARE, SOVIETS ARE CURRENTLY EXPRESSING CONVERN THAT SADAT INTENDS TO OFFER NAVAL FACILITIES TO USG. A SECOND GROMYKO VISIT AND LONG TOUTED BREZHNEV VISIT HAVE FOR TIME BEING QUIETLY BEEN SHELVED.

11. C. EGYPTIAN/ARAB RELATIONS: SPRING SAW ENERGETIC EFFORT ONPART OF SADAT TO GALVANIZE ARAB SUPPORT BEHIND EGYPTIAN POSITION VIS-A-BIS ME PEACE EFFORTS. THROUGH SAUDI AUSPICES, A RECONCILIATION OF SORTS TOOK PLACE WITH ASAD. SADAT REFUSED TO ACQUIESCE IN ASAD'S REQUEST THAT EGYPT TAKE NO PEACE STEPS WITHOUT SYRIA, BUT ADHERED TO GOE POSITION THAT THERE SHOULD ALSO BE SOME MOVE ON GOLAN AT APPROPRIATE TIME. EGYPTIAN-SRYIAN COORDIATION COMMITTEE WAS ESTABLISHED, NOMINALLY TO HARMONIZE FUTURE RELATIONS BETWEEN TWO COUNTRIES. SURFACE APPEARANCES NOTWITHSTANDING, MISTRUST BETWEEN SADAT AND ASAD PERSISTS. ON ONE HADN, ISRAELI PRESS LEAKS ABOUT

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NEW NEGOTIATIONS WITH GOE REFUELED SYRIAN SUSPICIONS. ON
OTHER, MID-JUNE SARG-GOJ COORDINATION AGREEMENT, WHILE PUBLICLY
ENDORSED BY SADAT, HAS AROUSED EGYPTIAN SUSPICIONS THAT SYRIANS
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ARE SEEKING TO FORM ARAB COUNTERFOIL TO EGYPT.

12. IN EFFORT ACHIEVE PRE-SALZBURG ARAB CONSENSUS, SADAT
IN MID-MAY VISITED KUWAIT, BAGHDAD, DAMASCUS AND AMMAN.
TRIP WAS HISTORIC FIRST FOR ANY EGYPTIAN PRESIDENT TO EITHER
JORDAN OR IRAQ. RETURNING HOME AFTER ELEVEN-DAY TOUR, SADAT
CLAIMED TO HAVE ACHIEVED TRIP'S PRIMARY GOAL: BASIC ARAB
CONSENSUS WHICH WOULD ALLOW HIM TO SPEAK AT SALZBURG WITH
CONFIDENCE AND CREDIBILITY AS ARAB LEADER RATHER THAN SOLEY
AS EGYPTIAN PRESIDENT. SADAT'S UNEQUIVOCAL STATEMENT IN
KUWAIT THAT ISRAEL BE ALLOWED EXIST WITHIN ITS '67 BORDERS
DREW SOME CRITICISM FROM KUWAITI PARLIAMENT AND PALESTINIANS,
BUT LED ELSEWHERE TO CAUTIOUSLY SIMILAR STATEMENTS.

13. RECURRENT PLO-PHALANGIST BATTLING THROUGHOUT REPORTING
PERIOD AND RESULTANT LEGANESE CABINET CRISIS WORRIED GOE.
SADAT OFFERED TO GO TO LEBANON TO ASSIST, BUT HAS KEPT
INVOLVEMENT TO DISPATCHING SERIES OF MESSAGES TO LEBANESE
LEADERS AND TO ARAFAT. WHEN BY END JUNE SITUATION SHOWED NO
IMPROVEMENT, SADAT PUBLICLY WARNED PALESTIANS TO ESCHEW
INTERFERENCE IN TERRITORIAL SOVEREIGNTY OF ITS ARAB HOSTS.

14. FED UP WITH PALESTINIANS, SADAT GAVE ARAFAT WHAT EGYPTIAN
PRESIDENT DESCRIBED AS SEVERE DRESSING DOWN DURING FAISAL
FUNERAL CONCLAVE LATE MARCH. AN APPARENTLY CHASTENED ARAFAT
ARRIVED IN CAIRO WEEK LATER AND WENT OUT OF HIS WAY IN PUBLIC
STATEMENTS DURING VISIT TO LAVISH PRAISE ON EYPTIAN LEADER.
IN FURTHER EFFORT PATCH UP RELATIONS WITH EGYPT, PLO SPOKESMAN
GAMELY CAME TO DEFENSE OF EGYPTIAN PRESIDENT IN NAME OF
ARAB SOLIDARITY AFTER VIRULENT PDLFP ATTACKS ON SADAT
FROM LIBYAN ROSTRUMIN JUNE. SADAT'S EFFORTS TO CAJOLE
PALESTINIANS INTO COMING TO AN AGREEMENT AMONG THEMSELVES
ON REPRESENTATION AT GENEVA WERE LESS
SUCCESSFUL. ALTHOUGH HE CAREFULLY MAINTAINED PUBLIC
POSITION THAT THIS WAS QUESTION ONLY PALESTINIANS COULD
DECIDE, HE WENT PUBLIC IN MID-JUNE WITH CALL FOR FORMATION
OF PALESTINIAN GOVERNMENT-IN-EXILE. IT SEEMS UNLIKELY THAT
SADAT'S ATTEMPT TO FORCE THE ISSUE WILL SUCCEED.

15. RELATIONS WITH LIBYA WENT FROM BAD TO WORSE, OPENING
WITH SADAT'S RETALIATION AGAINST LARG'S VIRULENT PERSONALIZED
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MUDSLINGING, CLIMAXING WITH SHOCK OF LATE-MAY ANNOUNCEMENT OF LARG/SOVIET ARMS DEAL, AND CLOSING WITH UNLIKELY BUT EXPEDIENT ANTI-SADAT ALLIANCE BETWEEN QADHAAFI'S MUSLIM FUNDAMENTALITS AND PFLP'S PALESTINIAN MARXISTS. ASIDE FROM SOVIET ARMS DEAL, GOE CONCENTRATED GREATEST CONCERN ON REPORTED LARG ATTEMPTS TO SUBVERT BORDER TRIBES AND TO INFILTRATE POTENTIAL ASSASSINS INTO EGYPT. PREDICTABLY, EGPTIAN PRESS PICKED UP LATE JUNE NEWSWEEK STORY THAT QADHAAFI HAD GIVEN GEORGE HABBASH 16 MILLION DOLLARS TO FINANCE SABOTAGE AND ASSASSINATION ATTEMPTS WITHIN EGYPT. SADAT AT SAME TIME ACCUSED QADHAAFI OF USING LIBYAN MONEY TO FAN PLO/PHALANGIST FIRES IN LEGANON. SADAT HAS CONLUDED QADHAAFI'S ANIMOSITY IS IRREVOCALBE AND THAT LIBYAN LEADER MUST GO. HOW THIS CAN BE ACHIEVED REMAINS IN DOUBT.

16. D. EGYPTIAN/EUROPEAN RELATIONS: EGYPTIAN SENSE,OF SELF-IMPORTANCE BOOSTED BY PROCESSION OF EUROPEAN VIPS TREKKING TO CAIRO. IN ADDITION TO ROMANIAN PRESIDENT, GREEK, YUGOSLAV, WEST GERMAN, ITALIAN, HUNGARIAN, NORWEGIAN AND ROMANIAN FONMINS VISITING CAIRO BETWEEN APRIL AND JUNE. EACH LAUDED SADAT'S REOPENING OF CANL, MADE USUAL STATEMENTS ON ME PEACE, AND CONCLUDED VARIOUS INDISTRIAL, ECONOMIC, CULTURAL AND TRADE AGREEMENTS.

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AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
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AMEMBASSY KWUAIT
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI

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17. AT END OF MAY, SADAT PAID PROTOCOL VISIT TO YUGOSLAVIA AND AUSTRIA ENROUTE TO SALZBURG SUMMIT AND THEN SENT HIS FOREIGN MINISTER AND HIS VICE PRESIDENT ON EUROPEAN MISSIONS LATER IN JUNE. FAHMY'S TRIP TO LONDON CULMINATED IN ANNOUNCEMENT THAT AGREEMENT HAD BEEN REACHED IN PRINCIPLE FOR ARMS PURCHASES FROM UK AMOUNTING TO 450 MILLION POUNDS STERLING, THROUGH PRESIDENTIAL ADVISOR ASHRAF MARWAN LATER PUBLICLY DENIED ANY DECISION TAKEN ON THIS SCORE.

18. E. MISCELLANEOUS: GOE WAS ALSO ACTIVE ON OTHER FRONTS. RELATIONS WITH IRAN WERE FURTHER STRENGTHENED WHTN SADAT MADE SURPRISE VISIT TO TEHRAN ON APRIL 23, FOLLOWING RIYADH
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SUMMIT. SADAT INVITED YOUNG IRANIAN CROWN PRINCE TO SHARE TOP PUBLIC BILLING WITH HIM AT SUEZ CANAL REOPENING CEREMONIES IN PORT SAID, THEREBY AROUSING SOME PIQUE ON PART OF SAUDIS AND PERHAPS OTHERS. IN LATE JUNE PRIMIN/MINWAR GAMASY MADE TRIP TO IRAN TO BE RECEIVED BY SHAH AND CONSULT WITH COUNTERPARTS.

19. JOINING STREAM OF VIPS, INDONESIAN AND INDIANFOREIGN MINISTERS TROOPED TO CAIRO IN APRIL, WHILE ARCHBISHOP MAKARIOS PAID STATE VISIT TWO MONTHS LATER. IN RETURN FOR MAKARIOS' SUPPORT FOR GOE POSITION IN ME PEACENEGOTIATIONS AND CONCOMITANT RECOGNITION OF PLO AS SOLE REPRESENTATIVE OF THE PALESTINIANS, SADAT REITERATED HIS ENDORSEMENT OF ARCHBISHOP'S SOLUTION TO CYPRUS PROBLEM, VIS. WITHDRAWAL OF MILITARY FORCES AND RETURN OF REFUGEES. TURKS ARE DISPLEASED WITH GOE POSITION AND PRIVATELY COMPLAIN SADAT SHOULD BACK FELLOW MUSLIM STATE, BUT ALSO RECOGNIZE SADAT'S ANNOYANCE AT RECENT TURKISH OVERTURES TOWARD LIBYA.

20 PART II - INTERNAL AFFAIRS.

ON DOMESTIC SCENE, THREE EVENTS DOMINATED QUARTER: INSTALLATION OF NEW CABINET MID-APRIL, DESIGNATION OF AIR

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MARSHAL MUBARAK AS NEW VICE PRESIDENT AND PUTATIVE EVENTUAL SUCCESSOR TO SADAT, AND REOPENING OF SUEZ CANAL. ON LESS PUBLICIZED LEVEL, MOMENT OF TRUTH ARRIVED FOR GOE AS SERIOUS LIQUIDITY AND BALANCE OF PAYMENTS PROBLEMS COULD NO LONGER BE IGNORED.

21. ON APRIL 14, HEGAZY GOVERNMENT, LONG UNDER PUBLIC ATTACK FOR INEFFICACY AND (LESS JUSTIFIABLY) CORRUPTION, RESIGNED. THREE DAYS LATER SADAT APPOINTED FORMER DEPUTY/ PRIMIN/MIN INTERIOR MAMDUH SALIM AS NEW PRIMIN WITH FAHMY AND GAMASY AS TWO PRINCIPAL DEPUTY PRIMINS. NEW CABINET, UNDER SALIM'S DIRECTION, WAS CHARGED WITH REDUCING COUNTRY'S ECONOMIC ILLS AND REINVIGORATING MORIBUND ECONOMIC OPEN DOOR POLICY. EGYPTIANS PLACIDLY ACCEPTED CHANGE, THOUGH NOT WITHOUT SOME RAISED EYEBROWS THAT "POLICEMEN" SHOULD HAVE BEEN NAMED PRIMIN. SALIM GOVERNMENT CONTAINS SOME NEW TALENT, BUT LIKE ITS PREDECESSOR, SUFFERS FROM JURISDICTIONAL FRAGMENTATION AND OVERLAP IN ECONOMIC SECTOR AND LACKS OVERALL

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ECONOMIC CZAR. A STRONG LEADER, SALIM MUST NEVERTHELESS COPE WITH ENTRENCHED EGYPTIAN BUREAUCRACY, WHICH RESENTS AND RESISTS REFORM MEASURES. IF EFFECTIVENESS OF SALIM GOVERNMENT REMAINS UNTESTED, ITS STYLE REFLECTS GREATER DYNAMISM. LENGTHY LISTS OF DECISIONS, OSTENSIBLY TAKEN TO REDRESS NATION'S ECONOMIC ILLS, REGULARLY FLOW FROM ITS MARATHON SESSIONS. UNURED TO EMPTY PROMISES, EGYPTIAN PUBLIC IS RESTIVELY WANTING ACTION RATHER THAN WORDS.

22. DESIGNATION OF MUBARAK AS NEW VP CAME AS SURPRISE. YOUNG, WELL LIKED AND RESPECTED AS AIR FORCE C/S, HE HAD NO PREVIOUS GROUNDING OR INTEREST IN POLITICS. APPOINTMENT MADE TO TIE MILITARY FORCES CLOSER TO SADAT, AS SIGNAL THAT NEW GENERATION OF TECHNICALLY TRAINED YOUTH HAS PLACE IN SADAT GOVERNMENT, AND AS PERSONAL RECOGNITION OF CONTRIBUTIONS OF OCTOBER WAR "HEROES". SINCE BECOMING VP, MUBARAK HAS BECOME A REGULAR, IF USUALLY MUTE, PARTICIPANT IN ALL HIGH LEVEL MEETINGS. MANY REGARD HIM AS SADAT'S CHOICE FOR EVENTUAL SUCCESSOR AT SUCH TIME AS PRESIDENT CHOOSES TO STEP DOWN. NEW VP IS STILL LEARNING THE POLITICAL ROPES AND IS AS YET WITHOUT DEMONSTRABLE INFLUENCE ON DECISION MAKING PROCESSES.

23. TRUE TO HIS WORD, SADAT REOPENED SUEZ CANAL ON JUNE 5 IN ELABORATELY STAGED CEREMONIES. DATE, MARKING EIGHTH ANNIVERSARY OF DISASTROUS 1967 ISARELI PREMPTIVE STRIEK, WAS SYMBOLICAL. TO WORLD EVENT HERALDED AS ACT OF STATES-MANSHIP; TO EGYPTIANS AS ONE OF FRUITS OF OCTOBER, 1973 "VICTORY". EQUALLY IMPORTANT ARE ANTICIPATED REVENUES, WHICH GOE HOPES MAY REACH $300-450 MILLION PER YEAR.

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24. TRY AS IT MAY, GOE COULD NO LONGER HIDE FROM SERIOUS LIQUIDITY/BALANCE OF PAYMENTS PROBLEMS. AGGREGATING L.E. 1.5 BILLION ($3.5 BILLION), CRISIS GENERATED BY SURGE OF IMPORTS TO MEET LONG PENT UP CONSUMER DEMAND OF A PUBLIC WHICH NO LONGER CONSIDERS ITSEFL AT WAR. POLITICAL STABILITY, IN SADAT'S VIEW, DEPENDS UPON GOE'S ABILITY PROVIDE AT LEAST MINIMAL CONSUMER'S GOODS.SLUGGISH INTERNATIONALCOTTON MARKET SHARPLY REDUCED ANTICIPATED GOE HARD CURRENCY INCOME, REQUIRING RESORT TO SHORT TERM, HIGH INTEREST BANKERS' FACILITIES. WITH THESE DUE OR ABOUT TO BECOME SO, GOE LACKED CASH TO PAY. AS MINFINANCE DRAMATICALLY TOLD MEETING OF HEADS OF EGYPTIAN

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PUBLIC SECTOR COMPANIES, LIQUIDITY CRISIS IS MOST SERIOUS THREAT TO EGYPT'S SOLVENCY SINCE 1880'S (SHADES OF KHEDIVE ISMAL*) WHILE SEEKING FOREIGN (INCLUDING US) HELP TO OVERCOME PROBLEM, GOE REMAINS RELUCTANT FOR POLITICAL REASONS IMPLEMENT AN AUSTERITY PROGRAM. KNOWLEDGE OF MULTI-LATEAL DONOR ASSISTANCE HAS AT LEAST TEMPORARILY BROUGHT RENEWED CONFIDENCE IN EGYPT'S CREDITWORTHINESS, YET IN ABSENCE STRINGENT DOMESTIC CONTROLS ON IMPORTS AND FOREIGN EXCHANGE MANAGEMENT, PROBLEM COULD PLAGUE GOE FOR SOME TIME.
EILTS

SECRET

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